

CITY OF KALONA, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2015

CITY OF KALONA, IOWA
Table of Contents

	<u>Page</u>
OFFICIALS	1
INDEPENDENT AUDITOR'S REPORT	2
BASIC FINANCIAL STATEMENTS:	
	<u>Exhibit</u>
Government-wide Financial Statement: Cash Basis Statement of Activities and Net Position	A 5
Governmental Funds Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 7
Proprietary Funds Financial Statement: Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 9
Notes to Financial Statements	10
OTHER INFORMATION:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	21
Notes to Other Information - Budgetary Reporting	22
Schedule of the City's Proportionate Share of the Net Pension Liability	23
Schedule of City Contributions	24
Notes to Other Information - Pension Liability	25
SUPPLEMENTARY INFORMATION:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements, and Changes in Cash Balances - Nonmajor Governmental Funds	1 27
Schedule of Indebtedness	2 28
Bond and Note Maturities	3 29
Schedule of Receipts by Source and Disbursements by Function - All Government Funds	4 30
COMMENTS AND RECOMMENDATIONS:	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	31
Schedule of Findings and Responses	33

CITY OF KALONA, IOWA
OFFICIALS
June 30, 2015

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Ken Herington	Mayor	January, 2016
Jenelle Bender	Council Member	January, 2016
Greg Schmidt	Council Member	January, 2016
Mark Robe	Council Member	January, 2018
Craig Spitzer	Council Member	January, 2018
Joe Schmidt	Council Member	January, 2018
Ryan Schlabaugh	City Administrator	Indefinite
Karen Christner	City Clerk	Indefinite

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and
Members of the City Council

Basis for Qualified Opinion on the Aggregate Remaining Fund Information

The financial statements do not include financial data for the City's legally separate component units, Kalona Library Foundation and Friends of the Kalona Library. Accounting principles generally accepted in the United States of America require the financial data for those component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. Because of this departure from accounting principles generally accepted in the United States of America, the cash basis net position, receipts and disbursements of the aggregate remaining fund information would have increased as summarized in Note 1.

Qualified Opinion

In our opinion, except for the effects of the matter described in the “Basis for Qualified Opinion on the Aggregate Remaining Fund Information” paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the aggregate remaining fund information of the City of Kalona, Iowa, as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities and each major fund of the City of Kalona, Iowa, as of June 30, 2015, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Emphasis of a Matter

As disclosed in Note 4 to the financial statements, the City of Kalona adopted new accounting guidance related to Governmental Accounting Standards Board (GASB) Statement No. 68, Accounting and Financial Reporting for Pensions. Our opinions are not modified with respect to this matter.

To the Honorable Mayor and
Members of the City Council

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Kalona's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2014 (which are not presented herein) and expressed qualified and unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in page 1 and pages 27 through 30, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, budgetary comparison information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions, on pages 21 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 10, 2015 on our consideration of the City of Kalona's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Kalona's internal control over financial reporting and compliance.

Genewald, Ben, Kyhn & Co., P.C.

Atlantic, Iowa
December 10, 2015

CITY OF KALONA, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2015

		Program Receipts	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 172,091	\$ 13,494	\$ --
Public works	388,862	150	287,455
Culture and recreation	637,566	107,070	76,503
Community and economic development	546,587	--	--
General government	237,726	6,733	--
Debt service	414,243	--	28
Total governmental activities	<u>2,397,075</u>	<u>127,447</u>	<u>363,986</u>
Business type activities:			
Water	300,075	334,792	--
Sewer	1,419,248	334,283	--
Nonmajor	53,862	98,125	--
Total business type activities	<u>1,773,185</u>	<u>767,200</u>	<u>--</u>
Total	<u>\$ 4,170,260</u>	<u>\$ 894,647</u>	<u>\$ 363,986</u>
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Tax increment financing			
Local option sales tax			
Grants and contributions not restricted to a specific purpose			
Unrestricted interest on investments			
Debt proceeds			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$ (158,597)	\$ --	\$ (158,597)
--	(101,257)	--	(101,257)
--	(453,993)	--	(453,993)
--	(546,587)	--	(546,587)
40,426	(190,567)	--	(190,567)
--	(414,215)	--	(414,215)
<u>40,426</u>	<u>(1,865,216)</u>	<u>--</u>	<u>(1,865,216)</u>
--	--	34,717	34,717
--	--	(1,084,965)	(1,084,965)
--	--	<u>44,263</u>	<u>44,263</u>
--	--	<u>(1,005,985)</u>	<u>(1,005,985)</u>
<u>\$ 40,426</u>	<u>(1,865,216)</u>	<u>(1,005,985)</u>	<u>(2,871,201)</u>
	871,252	--	871,252
	8,374	--	8,374
	223,266	--	223,266
	246,371	--	246,371
	144,264	--	144,264
	17,599	986	18,585
	--	995,757	995,757
	41,813	39,522	81,335
	<u>39,600</u>	<u>(39,600)</u>	<u>--</u>
	<u>1,592,539</u>	<u>996,665</u>	<u>2,589,204</u>
	(272,677)	(9,320)	(281,997)
	<u>2,121,636</u>	<u>999,957</u>	<u>3,121,593</u>
	<u>\$ 1,848,959</u>	<u>\$ 990,637</u>	<u>\$ 2,839,596</u>

CITY OF KALONA, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2015

		<u>Program Receipts</u>
	<u>Disbursements</u>	<u>Charges for Service</u>
		<u>Operating Grants, Contributions, and Restricted Interest</u>
Cash Basis Net Position		
Restricted:		
Nonexpendable:		
Cemetery perpetual care		
Expendable:		
Streets		
Urban renewal projects		
Debt service		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 100,388	\$ --	\$ 100,388
	230,170	--	230,170
	180,731	--	180,731
	99,441	--	99,441
	238,801	--	238,801
	<u>999,428</u>	<u>990,637</u>	<u>1,990,065</u>
	<u>\$ 1,848,959</u>	<u>\$ 990,637</u>	<u>\$ 2,839,596</u>

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2015

	<u>General</u>	<u>Special Revenue Urban Renewal Tax Increment</u>
Receipts:		
Property tax	\$ 756,108	\$ --
Tax increment financing	--	223,266
Other city tax	12,479	--
Licenses and permits	17,331	--
Use of money and property	30,619	--
Intergovernmental	143,522	--
Charges for service	125,164	--
Miscellaneous	173,160	--
Total receipts	<u>1,258,383</u>	<u>223,266</u>
Disbursements:		
Operating:		
Public safety	172,091	--
Public works	156,740	--
Culture and recreation	598,363	--
Community and economic development	83,319	293,897
General government	223,871	--
Debt service	--	--
Total disbursements	<u>1,234,384</u>	<u>293,897</u>
Excess (deficiency) of receipts over (under) disbursements	23,999	(70,631)
Other financing sources (uses):		
Operating transfers in	--	--
Operating transfers out	(278,792)	--
Total other financing sources (uses)	<u>(278,792)</u>	<u>--</u>
Net change in cash balances	(254,793)	(70,631)
Cash balances beginning of year	<u>1,354,609</u>	<u>251,362</u>
Cash balances end of year	<u>\$ 1,099,816</u>	<u>\$ 180,731</u>

(continued next page)

Special Revenue				
Local Option Sales	Road Use	Debt Service	Nonmajor	Total
\$ --	\$ --	\$ 8,249	\$ 100,988	\$ 865,345
--	--	--	--	223,266
246,371	--	125	1,677	260,652
--	--	--	--	17,331
--	--	28	--	30,647
--	245,711	--	--	389,233
--	--	--	--	125,164
--	--	--	--	173,160
<u>246,371</u>	<u>245,711</u>	<u>8,402</u>	<u>102,665</u>	<u>2,084,798</u>
--	--	--	--	172,091
--	212,289	--	19,833	388,862
--	--	--	39,203	637,566
169,371	--	--	--	546,587
--	--	--	13,855	237,726
--	--	414,243	--	414,243
<u>169,371</u>	<u>212,289</u>	<u>414,243</u>	<u>72,891</u>	<u>2,397,075</u>
77,000	33,422	(405,841)	29,774	(312,277)
--	--	414,800	--	414,800
(96,408)	--	--	--	(375,200)
<u>(96,408)</u>	<u>--</u>	<u>414,800</u>	<u>--</u>	<u>39,600</u>
(19,408)	33,422	8,959	29,774	(272,677)
<u>228,286</u>	<u>196,748</u>	<u>90,482</u>	<u>149</u>	<u>2,121,636</u>
<u>\$ 208,878</u>	<u>\$ 230,170</u>	<u>\$ 99,441</u>	<u>\$ 29,923</u>	<u>\$ 1,848,959</u>

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2015

	<u>General</u>	<u>Special Revenue Urban Renewal Tax Increment</u>
Cash Basis Fund Balances		
Nonspendable - Cemetery perpetual care	\$ 100,388	\$ --
Restricted:		
Streets	--	--
Urban renewal purposes	--	180,731
Debt service	--	--
Other purposes	--	--
Unassigned	<u>999,428</u>	<u>--</u>
Total cash basis net assets	<u>\$ 1,099,816</u>	<u>\$ 180,731</u>

The accompanying notes are an integral part of these statements.

<u>Special Revenue Local Option Sales</u>	<u>Road Use</u>	<u>Debt Service</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ --	\$ --	\$ 100,388
--	230,170	--	--	230,170
--	--	--	--	180,731
--	--	99,441	--	99,441
208,878	--	--	29,923	238,801
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>999,428</u>
<u>\$ 208,878</u>	<u>\$ 230,170</u>	<u>\$ 99,441</u>	<u>\$ 29,923</u>	<u>\$ 1,848,959</u>

CITY OF KALONA, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2015

	Enterprise Funds			
	Water	Sewer	Garbage	Total
Operating receipts:				
License and permits	\$ 4,304	\$ 1,000	\$ --	\$ 5,304
Charges for services	<u>330,488</u>	<u>333,283</u>	<u>98,125</u>	<u>761,896</u>
Total operating receipts	<u>334,792</u>	<u>334,283</u>	<u>98,125</u>	<u>767,200</u>
Operating disbursements:				
Business type activities	<u>234,835</u>	<u>204,331</u>	<u>53,862</u>	<u>493,028</u>
Total operating disbursements	<u>234,835</u>	<u>204,331</u>	<u>53,862</u>	<u>493,028</u>
Excess of operating receipts over operating disbursements	99,957	129,952	44,263	274,172
Non-operating receipts (disbursements):				
Interest on investments	650	336	--	986
Miscellaneous	8,070	31,452	--	39,522
Debt proceeds	--	995,757	--	995,757
Debt service	(65,240)	(151,487)	--	(216,727)
Capital projects	<u>--</u>	<u>(1,063,430)</u>	<u>--</u>	<u>(1,063,430)</u>
Net non-operating receipts (disbursements)	<u>(56,520)</u>	<u>(187,372)</u>	<u>--</u>	<u>(243,892)</u>
Excess (deficiency) of receipts over (under) disbursements	43,437	(57,420)	44,263	30,280
Other financing sources (uses):				
Operating transfers out	<u>--</u>	<u>--</u>	<u>(39,600)</u>	<u>(39,600)</u>
Total other financing sources (uses)	<u>--</u>	<u>--</u>	<u>(39,600)</u>	<u>(39,600)</u>
Change in cash balances	43,437	(57,420)	4,663	(9,320)
Cash balances beginning of year	<u>589,147</u>	<u>332,129</u>	<u>78,681</u>	<u>999,957</u>
Cash balances end of year	<u>\$ 632,584</u>	<u>\$ 274,709</u>	<u>\$ 83,344</u>	<u>\$ 990,637</u>
Cash Basis Fund Balances				
Unrestricted	<u>\$ 632,584</u>	<u>\$ 274,709</u>	<u>\$ 83,344</u>	<u>\$ 990,637</u>
Total cash basis fund balances	<u>\$ 632,584</u>	<u>\$ 274,709</u>	<u>\$ 83,344</u>	<u>\$ 990,637</u>

The accompanying notes are an integral part of these statements.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Kalona, Iowa is a political subdivision of the State of Iowa located in Washington County. It was first incorporated in 1879 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, sewer and garbage utilities services for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Kalona has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

Excluded Component Units

The City has two component units. The Kalona Library Foundation, which is a non-profit corporation that is legally separate, is a component unit because it has the potential to provide benefits to the City of Kalona Library. The Friends of the Kalona Library is a separate non-profit organization created for the sole purpose of raising funds to support the Kalona Library. The City has elected to exclude the financial information of its component units from these financial statements. Both component units should be blended into the Special Revenue Funds of the City of Kalona.

Following is a summary of the approximate cash basis fund balances, receipts and disbursements of the aggregate component units as of and for the year ended June 30, 2015:

Fund Balance	\$ <u>43,149</u>
Receipts	\$ <u>6,399</u>
Disbursements	\$ <u>16,632</u>

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Washington County Joint E911 Service Board and Washington County Assessor's Conference Board.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B. Basis of Presentation

Government-wide Financial Statements

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Special Revenue:

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Local Option Sales Fund is utilized to account for the collection and use of local option sales tax.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The City also reports the following additional proprietary fund:

Enterprise:

The Garbage Fund accounts for the operation and maintenance of the City's garbage service.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk - The City had no investments with credit risk.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation and revenue capital loan notes are as follows:

Year Ending June 30,	General Obligation Capital Loan Notes		Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 230,000	\$ 19,305	\$ 157,000	\$ 64,658	\$ 387,000	\$ 83,963
2017	70,000	15,810	162,000	61,430	232,000	77,240
2018	75,000	14,445	166,000	58,099	241,000	72,544
2019	80,000	12,908	170,000	54,686	250,000	67,594
2020	85,000	11,187	175,000	51,184	260,000	62,371
2021-2025	370,000	24,275	847,000	199,693	1,217,000	223,968
2026-2030	--	--	516,000	124,615	516,000	124,615
2031-2035	--	--	387,757	62,607	387,757	62,607
2036-2040	--	--	234,000	17,790	234,000	17,790
	<u>\$ 910,000</u>	<u>\$ 97,930</u>	<u>\$ 2,814,757</u>	<u>\$ 694,762</u>	<u>\$ 3,724,757</u>	<u>\$ 792,692</u>

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$1,067,000 in water revenue notes issued in August, 2003. Proceeds from the notes provided financing for the repair and improvement of the water system. The notes are payable solely from water customer net receipts and are payable through 2024. Annual principal and interest payments on the notes are expected to require less than 64 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$609,838. For the current year, principal and interest paid and total customer net receipts were \$63,710 and \$99,957, respectively.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$2,827,000 in sewer revenue notes issued in December, 2003, November, 2008 and October, 2014. Proceeds from the notes provided financing for the repair and improvement of the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2039. Annual principal and interest payments on the notes are expected to require greater than 100 percent of the net receipts. The total principal and interest remaining to be paid on the notes is \$2,899,681. For the current year, principal and interest paid and total customer net receipts were \$142,469 and \$129,952, respectively.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 3 - BONDS AND NOTES PAYABLE - Continued

The resolutions providing for the issuance of the revenue notes include the following provisions.

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b. Sufficient transfers shall be made into a separate and special fund to pay current expenses. The fund shall be known as the Sewer/Water Utility Operation and Maintenance Fund. There shall be deposited in the fund each month an amount sufficient to meet the current expenses of the month plus an amount equal to 1/12 of expenses payable on an annual basis such as insurance.
- c. Moneys shall next be disbursed to a separate and special fund to pay principal of and interest on the Notes and Parity Obligations known as the Sewer/Water Revenue Note Principal and Interest Sinking Fund (the "Sinking Fund"). The required amount to be deposited in the Sinking Fund in any month shall be an amount equal to 1/6 of the installment of interest coming due on the next payment and 1/12 of the installment of principal coming due on the next payment date.

NOTE 4 - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - PENSION PLAN - Continued

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95% of pay and the City contributed 8.93% for a total rate of 14.88%.

The City's contributions to IPERS for the year ended June 30, 2015 were \$37,885.

Collective Net Pension Liabilities, Collective Pension Expense, and Collective Deferred Outflows of Resources and Collective Deferred Inflows of Resources Related to Pensions - At June 30, 2015, the City's liability for its proportionate share of the collective net pension liability totaled \$229,471. The collective net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the collective net pension liability was based on the City's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the City's proportion was 0.005670%, which was a decrease of 0.000664% from its proportion measured as of June 30, 2013.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - PENSION PLAN - Continued

For the year ended June 30, 2015 the City collective pension expense, collective deferred outflows and collective deferred inflows totaled \$10,034, \$19,999 and \$87,514 respectively.

Actuarial Assumptions - The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Rate of Inflation (effective June 30, 2014)	3.00% per annum
Salary increases (effective June 30, 2014)	4.00%, average, including inflation. Rates vary by membership group.
Investment rate of return (effective June 30, 1996)	7.50%, compounded annually, net of pension plan investment expense, including inflation

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US Equity	23%	6.31
Non US Equity	15	6.76
Private Equity	13	11.34
Real Estate	8	3.52
Core Plus Fixed Income	28	2.06
Credit Opportunities	5	3.67
TIPS	5	1.92
Other Real Assets	2	6.27
Cash	1	(0.69)
Total	<u>100%</u>	

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 4 - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate.

	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
City's proportionate share of the net pension liability	\$ 433,580	\$ 229,471	\$ 57,183

Pension Plan Fiduciary Net Position - Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and comp time payable to employees at June 30, 2015 is \$17,206 for vacation and \$8,205 for comp time, for a total liability of \$25,411. This liability has been computed on rates of pay in effect at June 30, 2015.

NOTE 6 - RISK MANAGEMENT

The City of Kalona is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Debt Service	General	\$ 278,792
	Special Revenue	
	LOST	96,408
	Enterprise	
	Garbage	39,600
		<u>\$ 414,800</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Washington County to obtain police protection for its citizens. The City paid \$78,085 for services during the year ended June 30, 2015, and approved an agreement in the amount of \$79,724 for the year ending June 30, 2016.

NOTE 9 - CONDUIT DEBT OBLIGATION

On July 11, 2005, Facility Revenue Bonds, Iowa Mennonite School Project, in the amount of \$1,300,000 were issued. These revenue bonds were issued for the purpose of financing the cost of constructing, equipping and furnishing a fine arts facility on the Iowa Mennonite School Campus. These bonds are a special limited obligation of the City and shall not be payable from or charged upon any funds other than Loan Repayments made by the Iowa Mennonite School, a Tax Exempt Organization. The bonds do not constitute a debt of the City within any constitutional or statutory limitation.

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical benefits for employees and retirees. There are 7 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical benefits are provided through a fully-insured plan with a commercial insurance carrier. Retirees under age 65 pay the same premium for the medical benefits as active employees.

CITY OF KALONA, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2015

NOTE 10 - OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued

Funding Policy: The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$638 for single coverage and \$1,277 for family coverage. For the year ended June 30, 2015, the City contributed \$52,664 and plan members eligible for benefits contributed \$4,525 to the plan.

NOTE 11 - CAPITAL PROJECTS FUND

The City uses the General Fund, general government function, and Urban Renewal Tax Increment Fund, community and economic development function, to account for the resources used in the acquisition and construction of capital facilities. These expenditures should be budgeted and reported under the Capital Projects Fund, capital projects function. The City's total capital projects expenditures for the year ended June 30, 2015 were \$446,127.

NOTE 12 - CONTINGENCY

Subsequent Event

The City has evaluated all subsequent events through December 10, 2015, the date the financial statements were available to be issued.

* * *

OTHER INFORMATION

CITY OF KALONA, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL
FUNDS AND PROPRIETRY FUNDS
OTHER INFORMATION

Year ended June 30, 2015

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 865,345	\$ --	\$ 865,345
Tax increment financing	223,266	--	223,266
Other city tax	260,652	--	260,652
Licenses and permits	17,331	5,304	22,635
Use of money and property	30,647	986	31,633
Intergovernmental	389,233	--	389,233
Charges for service	125,164	761,896	887,060
Miscellaneous	<u>173,160</u>	<u>39,522</u>	<u>212,682</u>
Total receipts	<u>2,084,798</u>	<u>807,708</u>	<u>2,892,506</u>
Disbursements:			
Public safety	172,091	--	172,091
Public works	388,862	--	388,862
Culture and recreation	637,566	--	637,566
Community and economic development	546,587	--	546,587
General government	237,726	--	237,726
Debt service	414,243	--	414,243
Business type activities	<u>--</u>	<u>1,773,185</u>	<u>1,773,185</u>
Total disbursements	<u>2,397,075</u>	<u>1,773,185</u>	<u>4,170,260</u>
Excess (deficiency) of receipts over (under) disbursements	(312,277)	(965,477)	(1,277,754)
Other financing sources (uses), net	<u>39,600</u>	<u>956,157</u>	<u>995,757</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(272,677)	(9,320)	(281,997)
Balances beginning of year	<u>2,121,636</u>	<u>999,957</u>	<u>3,121,593</u>
Balances end of year	<u>\$ 1,848,959</u>	<u>\$ 990,637</u>	<u>\$ 2,839,596</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 850,498	\$ 850,498	\$ 14,847
221,004	221,004	2,262
236,483	236,483	24,169
13,500	19,105	3,530
18,400	25,900	5,733
270,938	1,655,099	(1,265,866)
881,876	925,949	(38,889)
158,161	172,336	40,346
<u>2,650,860</u>	<u>4,106,374</u>	<u>(1,213,868)</u>
188,051	188,051	15,960
424,721	426,221	37,359
523,695	747,318	109,752
431,179	647,287	100,700
171,179	292,333	54,607
414,243	423,043	8,800
628,363	2,006,454	233,269
<u>2,781,431</u>	<u>4,730,707</u>	<u>560,447</u>
(130,571)	(624,333)	(653,421)
<u>--</u>	<u>--</u>	<u>995,757</u>
(130,571)	(624,333)	342,336
<u>2,596,694</u>	<u>5,062,817</u>	<u>(1,941,224)</u>
<u>\$ 2,466,123</u>	<u>\$ 4,438,484</u>	<u>\$(1,598,888)</u>

CITY OF KALONA, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2015

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$1,949,276. The budget amendment is reflected in the final budgeted amount.

See accompanying independent auditor's report.

CITY OF KALONA, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR*
(IN THOUSANDS)

OTHER INFORMATION

City's proportion of the net pension liability		0.005670%
City's proportionate share of the net pension liability	\$	229
City's covered-employee payroll:	\$	379
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll		60.42%
Plan fiduciary net position as a percentage of the total pension liability		87.61%

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF KALONA, IOWA

SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST 10 FISCAL YEARS
(IN THOUSANDS)

OTHER INFORMATION

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Statutorily required contribution	\$ 38	\$ 34	\$ 36	\$ 32
Contributions in relation to the statutorily required contribution	<u>(38)</u>	<u>(34)</u>	<u>(36)</u>	<u>(32)</u>
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
City's covered-employee payroll	\$ 424	\$ 379	\$ 410	\$ 392
Contributions as a percentage of covered-employee payroll	8.96%	8.97%	8.78%	8.16%

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 30	\$ 26	\$ 23	\$ 20	\$ 18	\$ 17
(30)	(26)	(23)	(20)	(18)	(17)
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ 432	\$ 395	\$ 364	\$ 330	\$ 315	\$ 293
6.94%	6.58%	6.32%	6.06%	5.71%	5.80%

CITY OF KALONA, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups - emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

(continued next page)

CITY OF KALONA, IOWA

NOTES TO OTHER INFORMATION - PENSION LIABILITY - Continued

YEAR ENDED JUNE 30, 2015

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25% to 4.00%.
- Lowered the inflation assumption from 3.50% to 3.25%.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

* * *

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

CITY OF KALONA, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2015

	<u>Special Revenue Employee Benefits</u>	<u>Total</u>
Receipts:		
Property tax	\$ 100,988	\$ 100,988
Other city tax	<u>1,677</u>	<u>1,677</u>
Total receipts	<u>102,665</u>	<u>102,665</u>
Disbursements:		
Operating:		
Public works	19,833	19,833
Culture and recreation	39,203	39,203
General government	<u>13,855</u>	<u>13,855</u>
Total disbursements	<u>72,891</u>	<u>72,891</u>
Excess of receipts over disbursements	29,774	29,774
Other financing sources:		
Operating transfers	<u>--</u>	<u>--</u>
Total other financing sources	<u>--</u>	<u>--</u>
Net change in cash balances	29,774	29,774
Cash balances beginning of year	<u>149</u>	<u>149</u>
Cash balances end of year	<u>\$ 29,923</u>	<u>\$ 29,923</u>
Cash Basis Fund Balances		
Restricted:		
Other purposes	<u>\$ 29,923</u>	<u>\$ 29,923</u>
Total cash basis fund balances	<u>\$ 29,923</u>	<u>\$ 29,923</u>

See accompanying independent auditor's report.

CITY OF KALONA, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2015

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Capital Loan Notes: Library	June 1, 2004	1.30% - 2.65%	\$ 1,400,000
General Obligation Capital Loan Notes: Series 2010	November 15, 2010	2.75%	1,600,000
Total General Obligation Notes			
Revenue Notes Payable:			
State revolving fund loans			
Water	August 26, 2003	1.75%	1,067,000
Sewer	December 12, 2003	1.75%	503,000
Sewer	November 26, 2008	3.00%	1,200,000
Sewer	October 3, 2014	2.00%	1,124,000
Total SRF loans			
Total			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 815,000	\$ --	\$ 65,000	\$ 750,000	\$ 18,243	\$ 1,425
<u>480,000</u>	<u>--</u>	<u>320,000</u>	<u>160,000</u>	<u>11,000</u>	<u>367</u>
<u>1,295,000</u>	<u>--</u>	<u>385,000</u>	<u>910,000</u>	<u>29,243</u>	<u>1,792</u>
612,000	--	53,000	559,000	10,710	1,378
289,000	--	25,000	264,000	5,057	651
1,070,000	--	28,000	1,042,000	32,100	2,569
<u>--</u>	<u>995,757</u>	<u>46,000</u>	<u>949,757</u>	<u>6,312</u>	<u>2,342</u>
<u>1,971,000</u>	<u>995,757</u>	<u>152,000</u>	<u>2,814,757</u>	<u>54,179</u>	<u>6,940</u>
<u>\$3,266,000</u>	<u>\$ 995,757</u>	<u>\$ 537,000</u>	<u>\$ 3,724,757</u>	<u>\$ 83,422</u>	<u>\$ 8,732</u>

CITY OF KALONA, IOWA
BOND AND NOTE MATURITIES
June 30, 2015

Year ending June 30,	General Obligation Notes				
	GO Capital Loan Notes - Library Note		GO Capital Loan Notes - Series 2010		
	Issued		Issued		
	June 1, 2004		November 15, 2010		
	Interest Rates	Amount	Interest Rates	Amount	Total
2016	1.85%	\$ 70,000	2.75%	\$ 160,000	\$ 230,000
2017	1.95%	70,000	--	--	70,000
2018	2.05%	75,000	--	--	75,000
2019	2.15%	80,000	--	--	80,000
2020	2.25%	85,000	--	--	85,000
2021-2025	2.35-2.65%	<u>370,000</u>	--	<u>--</u>	<u>370,000</u>
		<u>\$ 750,000</u>		<u>\$ 160,000</u>	<u>\$ 910,000</u>

Year ending June 30,	State Revolving Funds Notes			
	Sewer		Water	
	Issued		Issued	
	December 12, 2003		August 26, 2003	
	Interest Rates	Amount	Interest Rates	Amount
2016	1.75%	\$ 26,000	1.75%	\$ 55,000
2017	1.75%	27,000	1.75%	57,000
2018	1.75%	28,000	1.75%	58,000
2019	1.75%	28,000	1.75%	60,000
2020	1.75%	29,000	1.75%	62,000
2021-2025	1.75%	126,000	1.75%	267,000
2026-2030	--	--	--	--
2031-2035	--	--	--	--
2036-2040	--	<u>--</u>	--	<u>--</u>
		<u>\$ 264,000</u>		<u>\$ 559,000</u>

See accompanying independent auditor's report.

State Revolving Funds Notes				
Sewer Issued November 26, 2008		Sewer Issued October 3, 2014		
Interest Rates	Amount	Interest Rates	Amount	Total
3.00%	\$ 29,000	2.00%	\$ 47,000	\$ 157,000
3.00%	30,000	2.00%	48,000	162,000
3.00%	31,000	2.00%	49,000	166,000
3.00%	32,000	2.00%	50,000	170,000
3.00%	33,000	2.00%	51,000	175,000
3.00%	184,000	2.00%	270,000	847,000
3.00%	216,000	2.00%	300,000	516,000
3.00%	253,000	2.00%	134,757	387,757
3.00%	<u>234,000</u>		<u>--</u>	<u>234,000</u>
	<u>\$1,042,000</u>		<u>\$ 949,757</u>	<u>\$2,814,757</u>

CITY OF KALONA, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the Last Ten Years

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Receipts:				
Property tax	\$ 865,345	\$ 689,759	\$ 775,523	\$ 736,263
Tax increment financing	223,266	470,550	228,218	323,223
Other city tax	260,652	257,309	245,835	240,511
Licenses and permits	17,331	14,280	14,626	10,934
Use of money and property	30,647	125,745	27,828	36,308
Intergovernmental	389,233	261,134	226,295	706,758
Charges for service	125,164	142,318	119,707	112,702
Miscellaneous	<u>173,160</u>	<u>704,522</u>	<u>431,458</u>	<u>404,703</u>
Total	<u>\$ 2,084,798</u>	<u>\$ 2,665,617</u>	<u>\$ 2,069,490</u>	<u>\$ 2,571,402</u>
Disbursements:				
Operating:				
Public safety	\$ 172,091	\$ 421,310	\$ 164,143	\$ 165,258
Public works	388,862	311,845	315,146	457,959
Culture and recreation	637,566	513,047	572,556	471,200
Community and economic development	546,587	415,230	444,609	234,995
General government	237,726	170,173	160,748	893,300
Debt service	414,243	424,115	433,923	447,876
Capital projects	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>\$ 2,397,075</u>	<u>\$ 2,255,720</u>	<u>\$ 2,091,125</u>	<u>\$ 2,670,588</u>

See accompanying independent auditor's report.

<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>
\$ 711,674	\$ 755,896	\$ 698,056	\$ 675,362	\$ 668,988	\$ 642,763
267,667	187,925	215,652	103,253	222,404	204,193
225,123	231,494	214,175	244,718	233,659	163,745
10,493	13,194	18,053	6,335	4,228	4,190
42,711	63,930	49,743	75,555	203,833	32,292
258,583	242,173	353,212	371,898	226,786	209,545
125,762	120,790	86,906	92,198	83,288	73,917
<u>673,283</u>	<u>253,591</u>	<u>167,519</u>	<u>216,591</u>	<u>64,000</u>	<u>16,970</u>
<u>\$ 2,315,296</u>	<u>\$ 1,868,993</u>	<u>\$ 1,803,316</u>	<u>\$ 1,785,910</u>	<u>\$ 1,707,186</u>	<u>\$ 1,347,615</u>
\$ 154,178	\$ 158,602	\$ 156,819	\$ 167,840	\$ 142,978	\$ 133,259
189,054	462,789	185,787	395,722	481,566	144,316
482,032	641,988	457,115	502,739	370,763	331,379
130,358	706,375	364,541	485,000	348,316	216,009
2,834,706	794,759	144,508	399,324	186,825	169,350
285,455	28,030	24,268	25,340	26,248	54,750
<u>--</u>	<u>--</u>	<u>10,992</u>	<u>--</u>	<u>--</u>	<u>66,566</u>
<u>\$ 4,075,783</u>	<u>\$ 2,792,543</u>	<u>\$ 1,344,030</u>	<u>\$ 1,975,965</u>	<u>\$ 1,556,696</u>	<u>\$ 1,115,629</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

CERTIFIED PUBLIC ACCOUNTANTS • BUSINESS AND FINANCIAL CONSULTANTS

1910 EAST 7th STREET BOX 369
ATLANTIC, IOWA 50022-0369
(712) 243-1800
FAX (712) 243-1265
CPA@GBKCO.COM

MARK D. KYHNN
DAVID L. HANNASCH
KENNETH P. TEGELS
CHRISTOPHER J. NELSON
DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Kalona, Iowa, as of and for the year ended June 30, 2015, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 10, 2015. Our report expressed qualified and unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Kalona's internal control over financial reporting (internal control) to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Kalona's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Kalona's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and
Members of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies: 15-I-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Kalona's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying schedule of findings and responses.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to the Findings

The City of Kalona's responses to findings identified in our audit are described in the accompanying schedule of findings and responses. The City of Kalona's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 Ben Kuhn + Co. P.C.

Atlantic, Iowa
December 10, 2015

CITY OF KALONA, IOWA
Schedule of Findings and Responses
Year ended June 30, 2015

PART I: Findings Related to the Financial Statements

SIGNIFICANT DEFICIENCIES:

15-I-A Segregation of Duties: One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. However, because there are a limited number of people that have the primary responsibility for the accounting and financial duties, those aspects of internal accounting control which rely upon an adequate segregation of duties are missing in the City.

Recommendation: We recommend that the City review its control procedures to obtain the maximum internal control possible under the circumstances and the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: Since there are only two employees at city hall, it is difficult to segregate duties. Duties are segregated to the best of our ability.

Conclusion: Response accepted.

* * *

CITY OF KALONA, IOWA
Schedule of Findings and Responses
Year ended June 30, 2015

PART II: Other Findings Related to Statutory Reporting

15-II-A Certified Budget: Disbursements during the year ended June 30, 2015 did not exceed the amounts budgeted.

15-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

15-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

15-II-D Business Transactions: In accordance with Chapter 362.5(10) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

15-II-E Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

15-II-F Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not. City Council meetings were not preceded by proper notice in accordance with Chapter 21.4 of the Code of Iowa.

Recommendation: The City should comply with Chapter 21.4 of the Code of Iowa and give proper notice of Council meetings.

Response: We will comply with the Code requirements for proper notice of Council meetings.

Conclusion: Response accepted.

15-II-G Deposits and Investments: We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa.

15-II-H Revenue Bonds and Notes: No instances of non-compliance with the revenue bond and note

CITY OF KALONA, IOWA
Schedule of Findings and Responses
Year ended June 30, 2015

PART II: Other Findings Related to Statutory Reporting - Continued

15-II-I Capital Projects Fund: The City has not properly used the Capital Projects Fund to pay for long-term capital projects they incurred throughout the year.

Recommendation: The City should utilize the Capital Projects Fund for the various projects they incur throughout the year. These expenditures should be budgeted and reported as capital projects disbursements.

Response: We will consider using Capital Projects fund in the future.

Conclusion: Response accepted.

15-II-J Urban Renewal Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

15-II-K Unclaimed Property Report: The City appears to have unclaimed property in accordance with Chapter 556.1(12) of the Code of Iowa, but did not report the unclaimed property to the State Treasurer annually by November 1 as required by Chapter 556.11 of the Code of Iowa.

Recommendation: The City should comply with the identification and reporting of unclaimed property in accordance with Chapters 556.1(12) and 556.11 of the Code of Iowa.

Response: We will review the requirements for reporting unclaimed property in accordance with Chapters 556.1(12) and 556.11 of the Iowa Code for compliance in the future.

Conclusion: Response accepted.

* * *